

Message Text

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ACTION ARA-10

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

EB-07 COME-00 TRSE-00 FEAE-00 AID-05 OMB-01 INT-05

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R 132204Z MAY 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 5121

INFO AMEMBASSY TOKYO

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EO 11652: NA

TAGS: OCON,PFOR,XM,JA,PE

SUBJ: U.S. JAPANESE CONSULTATIONS ON LATIN AMERICA

REFS: STATE 107241, STATE 48628, LIMA 9615 OF NOV 14, 1974,
LIMA 9579 OF NOV 13, 1974, PARIS 09983,
LIMA 3623 (NOTAL), LIMA A-78 OF MAY 9, 1975 (NOTAL)

SUMMARY: BECAUSE OF PERU'S POTENTIAL AS A RAW MATERIALS
PRODUCER, JAPAN UNTIL RECENTLY SEEMED TO CONSIDER PERU A
LOGICAL PLACE FOR MAJOR INVESTMENT AND LOAN OPERATIONS.
HOWEVER, JAPANESE INTEREST IN PERU SEEMS TO HAVE DIMINISHED
RECENTLY. IN PART, THIS MIGHT BE EXPLAINED BY VARIOUS
DOMESTIC PERUVIAN EVENTS -- THE CONFRONTATION PRECIPITATED
BY SEVERAL PERUVIAN LAWYERS WHO BELIEVED THAT THE GOP
AGREEMENT WITH JAPAN FOR PARTIAL FINANCING OF THE
TRANS-ANDEAN PIPELINE WAS ILLEGAL AND PROBLEMS BETWEEN
THE GOP AND THE U.S. OWNED MARCONA MINING CO. WHICH
SELLS MOST OF ITS IRON PELLET PRODUCTION TO JAPAN.
POSSIBLE DISILLUSIONMENT WITH PERU'S OIL PROSPECTS AND
WITH PROJECT IMPLEMENTATION OF THE MICHICUILLAY COPPER
DEPOSIT MAY ALSO CONTRIBUTE TO LESSENING INTEREST.

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FINALLY, AT THE RECENT IBRD CONSULTATIVE GROUP MEETING

THE JAPANESE DELEGATE PRIVATELY MENTIONED THAT JAPAN WAS HAVING PROBLEMS IMPLEMENTING A MICROWAVE PROJECT AND WAS NOT PLANNING TO FINANCE ANY PROJECTS ON PERU'S 1975-1977 LIST, THE CLEAREST INDICATOR TO DATE OF A CHANGE IN GOJ THINKING ABOUT PERU. THIS CABLE CONTAINS SEVERAL SUBJECTS WHICH MIGHT BE OF MUTUAL INTEREST TO RAISE IN THE CONSULTATIONS ON LATIN AMERICA. END SUMMARY.

1. UNTIL RECENTLY JAPAN APPEARED TO CONSIDER PERU A LOGICAL PLACE FOR MAJOR INVESTMENT AND LOAN ACTIVITIES. PERU, AS A COUNTRY WITH SUBSTANTIAL POTENTIAL AS A RAW MATERIALS PRODUCER, COULD SUPPLY JAPAN WITH ITS NEEDED COPPER, SILVER, IRON, AND POSSIBLY PETROLEUM, ETC. HOWEVER, OVER THE PAST SIX MONTHS JAPANESE INTEREST IN PERU HAS WANED SOMEWHAT. THERE ARE SEVERAL FACTORS WHICH HAVE PROBABLY CONTRIBUTED TO THIS CHANGE.

2. IN NOVEMBER JAPAN FOUND ITSELF THE INNOCENT INSTRUMENT USED IN A SERIOUS DOMESTIC CONFRONTATION. SEVERAL MEMBERS OF THE LIMA BAR ASSOCIATION, AN ANTI-GOP GROUP, ACCUSED THE GOP OF SELLING OUT THE "NATIONAL PATRIMONY" BECAUSE OF THE TERMS OF ITS AGREEMENT WITH THE JAPANESE FOR PARTIAL FINANCING OF THE TRANS-ANDEAN PIPELINE. THIS AGREEMENT INCLUDED A CLAUSE WHICH PROVIDES THAT ANY DISPUTE IN INTERPRETATION WOULD BE ADJUDICATED IN TOKYO UNDER JAPANESE LAW. ALTHOUGH NORMAL INTERNATIONAL COMMERCIAL PRACTICE, THE LAWYERS COMPARED THE CLAUSE WITH THE PREVIOUS BELAUNDE REGIME'S "SELL-OUT" OVER IPC, THE INTERNATIONAL PETROLEUM COMPANY, WHICH WAS THE PERUVIAN MILITARY'S PRETEXT FOR OVERTHROWING BELAUNDE AND THE INSTALLATION OF THE PRESENT LEFTIST MILITARY GOVERNMENT, LEADING TO STRAINED RELATIONS WITH THE UNITED STATES. THE LAWYERS WERE DEPORTED AFTER EXTREMELY BITTER AND BROAD ATTACKS ON THEM BY THE GOVERNMENT-CONTROLLED PRESS (SEE LIMA 9579 AND 9615). THE JAPANESE EMBASSY HERE INFORMED US THAT THE INDIRECT JAPANESE INVOLVEMENT CAUSED CONCERN IN TOKYO ABOUT JAPAN'S OVERALL EXPOSURE IN PERU.

3. JAPAN PURCHASES MOST OF THE IRON PELLET PRODUCTION LIMITED OFFICIAL USE

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OF THE US-OWNED MARCONA MINING COMPANY IN PERU. MARCONA MAY BE NATIONALIZED SHORTLY. THE MINISTER OF ENERGY AND MINES HAS ANNOUNCED THAT IT WILL OCCUR BEFORE THE END OF 1975 (SEE LIMA 3623). IN ORDER TO MAINTAIN A PROFITABLE LEVEL OF OPERATIONS, MARCONA MUST EXPAND ITS PELLET PLANT FACILITIES WITH A \$20 MILLION INVESTMENT. FOR SEVERAL YEARS, THE COMPANY HAS BEEN REQUESTING PERMISSION FROM THE GOP TO PROCEED WITH THIS

EXPANSION (FINANCED PRINCIPALLY BY THE JAPANESE). NOW, HOWEVER, ANY SUCH EXPANSION WILL HAVE TO AWAIT THE OUT-COME OF CURRENT NEGOTIATIONS BETWEEN MARCONA AND THE GOP. IN THE MEANTIME, THE JAPANESE MIGHT BE EXPECTED TO SEEK OUT OTHER LONG-TERM IRON SUPPLIERS WHO CAN EXPAND MORE EASILY AS JAPAN'S REQUIREMENTS GROW. FURTHER, MARCONA HAD RELIED ON JAPANESE SUPPORT IN ITS NEGOTIATIONS WITH THE GOP AND HAD BEEN INFORMED THAT THE JAPANESE WOULD NOT OFFER FINANCING DIRECTLY TO THE GOP UNLESS THERE WAS AN AMICABLE SETTLEMENT. RECENTLY, HOWEVER, THE JAPANESE ROLE HAS BECOME MURKY AND WE ARE NOT SURE THEY WOULD CONTINUE TO SUPPORT MARCONA'S POSITION.

4. ARCO (ATLANTIC RICHFIELD) WITH ITS JAPANESE PARTNER, ANDES PETROLEUM CO., IS THE FIRST FOREIGN OIL COMPANY OFFICIALLY TO HAVE REQUESTED THAT THE GOP RELEASE IT (FOR A \$2 MILLION PENALTY FEE) FROM ITS COMMITMENT TO DRILL FOUR WELLS IN THE NORTHERN PERUVIAN JUNGLE BECAUSE DRILLING PROSPECTS DO NOT WARRANT THE EXPENSE. CITIES SERVICE, IN A PARTNERSHIP WITH ANDES, IS NOW DOING PRE-DRILLING SEISMIC STUDIES IN TWO OTHER EXPLORATION-BLOCKS IN THE SOUTHERN PERUVIAN JUNGLE. THUS FAR PROSPECTS LOOK BLEAK FOR THE PERUVIAN OIL BOOM PREDICTED FURING THE PAST SEVERAL YEARS.
DEAN

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ACTION ARA-10

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

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5. THE JAPANESE, THROUGH A MITSUBISHI-LED CONSORTIUM, HAVE BEEN EXAMINING THE FEASIBILITY OF DEVELOPING THE MICHIQUILLAY COPPER DEPOSIT IN NORTHERN PERU. THIS IS A (POSSIBLE) \$1 BILLION PROJECT WITH LOGISTICAL PROBLEMS FAR GREATER THAN THOSE BEING ENCOUNTERED IN THE CONSTRUCTION OF THE TRANS-ANDEAN OIL PIPELINE. IT WILL REQUIRE A VERY LARGE CAPITAL OUTLAY BY THE GOP FOR INFRASTRUCTURE DEVELOPMENT IN THE REGION. PROGRESS HAS BEEN EXTREMELY SLOW ON THIS PROJECT.

6. TOYO ENGINEERING AND MITSUBISHI HAVE JUST COMPLETED THE CONSTRUCTION OF A \$44 MILLION FERTILIZER COMPLEX AT TALARA FOR PETROPERU (LIMA A-78 OF MAY 9, 1975). MITSUI-FURUKAWA IS ABOUT TO COMPLETE A \$60 MILLION COPPER REFINERY AT ILO FOR MINEROPERU.

7. AFTER THE IBRD CONSULTATIVE GROUP MEETING IN PERU HELD IN PARIS ON APRIL 16-17 (PARIS 09983), THE JAPANESE DELEGATE MENTIONED TO US THAT BECAUSE OF PROBLEMS IN PERU, INCLUDING DIFFICULTIES IN PROJECT IMPLEMENTATION, JAPAN IS NOT NOW PLANNING TO FINANCE ANY PROJECTS ON THE 1975-1977 \$6 BILLION PROJECT LIST PRESENTED BY PERU (EXCEPT, LIMITED OFFICIAL USE

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WE IMAGINE, MICHIQUILLAY REMAINING AS A POSSIBILITY). THIS IS INTERESTING AS ONE OF THE FIRST JAPANESE STATEMENTS REVEALING POSSIBLE DISILLUSIONMENT WITH PERU.

8. USING THE ABOVE AND THE REFERENCED MESSAGES AS BACKGROUND, WE BELIEVE IT WOULD BE USEFUL FOR THE U.S. DELEGATION TO EXPLORE, POSSIBLY INFORMALLY, THE FOLLOWING ITEMS:

(A) WHAT ARE JAPANESE VIEWS ON STATUS OF PERUVIAN ECONOMY? IN PARTICULAR, WITH REFERENCE TO OIL, DO JAPANESE BELIEVE THAT PERU'S PROVEN RESERVES WILL BE SUFFICIENT TO ENABLE GOP TO REPAY THE \$330 MILLION LOAN FOR THE TRANS-ANDEAN PIPELINE AND JUNGLE EXPLORATION, BEGINNING IN 1978?

(B) DO JAPANESE INTEND TO DEVELOP MAJOR MINING PROJECTS, SUCH AS MICHIQUILLAY? FURTHER, HOW DOES GOJ VIEW MARCONA BUY-OUT NEGOTIATIONS AND WILL JAPANESE CONTINUE TO SUPPORT MARCONA'S POSITION RE PELLET-PLANT EXPANSION?

(C) HAVE JAPANESE DECIDED IN FACT NOT TO SUPPORT ANY

OTHER PROJECTS ON WORLD BANK LIST?

(D) HOW DOES JAPAN VIEW THE MILITANT CIPEC POLICY LINE
ESPOUSED BY THE GOP? HAS PERUVIAN MILITANCY IN CIPEC--AND
FOR THAT MATTER THE ENTIRE RANGE OF PRODUCER'S AND THIRD-WORLD
INITIATIVES--BEEN A FACTOR IN OVERALL REASSESSMENT OF JAPANESE
ROLE HERE?

(E) IS THERE ANY GOJ REACTION TO EFFUSIVE
CONGRATULATORY MESSAGE PRESIDENT VELASCO SENT TO THE
VIET CONG AFTER FALL OF SOUTH VIETNAM?
DEAN

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